



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D. C. 20503

ADMINISTRATOR
OFFICE OF
INFORMATION AND
REGULATORY AFFAIRS

DEC 18 2002

The Honorable Kay Cole James
Director
Office of Personnel Management
1900 E Street, N.W.
Washington, DC 20415

Dear Ms. James:

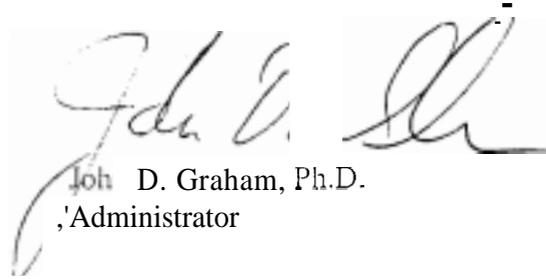
On September 19, 2002, the Office of Personnel Management (OPM) submitted a proposed rule entitled, "Implementation of Additional Cost Principles in the Federal Employees Health Benefits Program," to the Office of Management and Budget (OMB) for review under Executive Order No. 12566. The proposed rule would amend the Federal Employee Health Benefits (FEHB) regulations to delete the requirements for contractors to comply with the Cost Accounting Standards for experience rated contracts. The rule also revises and adds additional cost accounting principles for such contracts.

After discussions with OPM staff, we are returning the proposed rule for your reconsideration. We have significant concerns with the justification for the proposed alternative to the Cost Accounting Standards (CAS). In particular, the proposed modification of the Federal Acquisition Regulation (FAR) subpart 31.2 cost principles does not explain why the existing cost principles are not sufficient as an alternative. OPM has not presented any arguments to OMB as to why neither the CAS nor the FAR principles are sufficient for the FEHB program contractors.

Furthermore, if there is an argument to be made that a special set of cost measurement, assignment or allocation rules is necessary for health care insurance programs, this argument should be considered in regard to all relevant programs including Medicare and Tricare rather than merely doing so for the FEHB. At a minimum, there should be coordination among the agencies that deal with the same group of carriers. This was the intent of a working group set up by OMB's Office of Federal Procurement Policy (OFPP) in the Fall of 2000. OFPP remains willing to cooperate in such an effort.

In light of these concerns and the need to look at this issue in a broader context, I am returning this rule for your reconsideration. My staff and the staff of OFPP will continue to work with you on this issue.

Sincerely,



John D. Graham, Ph.D.
Administrator